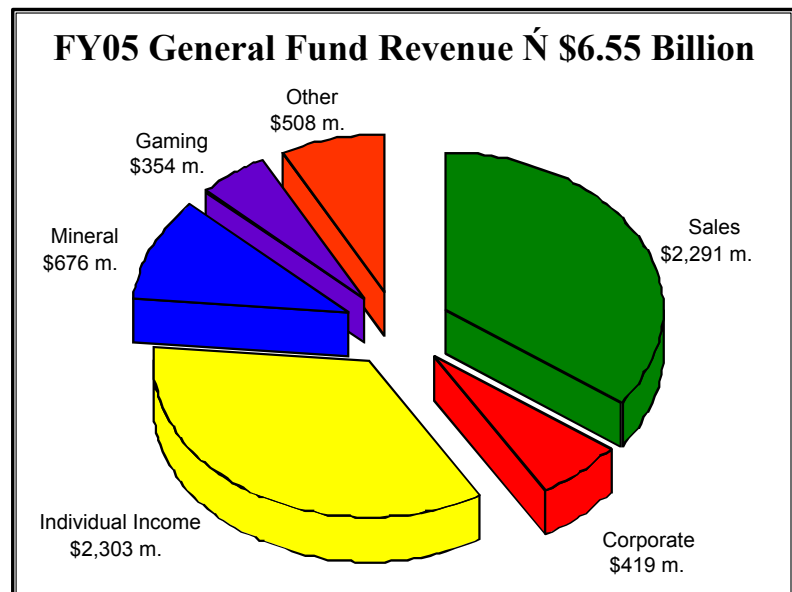
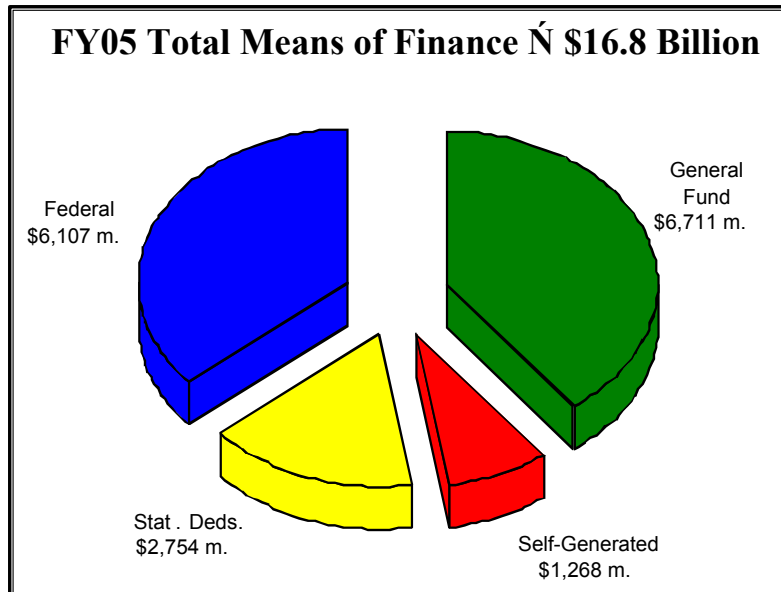

FY05 Budget Status Summary

March 17, 2004

The FY05 Executive Budget is approximately \$16.8 billion. Of this total, General Fund expenditures amount to \$6.7 billion. The \$16.8 billion includes supplemental funding recommendations in the amount of \$211 million. The inclusion of supplemental funding recommendations generates a total of \$368 million in additional expenditures.



Note: Supplemental Funding Proposals total \$211 in state funds, thus bringing the total General Fund Revenue to \$6.7 billion

Current Status FY05 Executive Budget

Cuts have been made throughout the budget, and most departments are probably dissatisfied with proposed funding levels compared to Continuation Budget requirements (the level of funding required to maintain services at the same level as the prior fiscal year).

In addition, there are several areas that will require attention during deliberations on the budget, House Bill No. 1 (HB 1) of the 2004 Regular Session, as a number of expenditure items have not been included in the Governor's Executive Budget. Such expenditure items are typically referred to as "unmet needs." The table below highlights some of the remaining unmet needs.

Major Unmet Needs for FY05

Minimum Foundation Program (MFP)	\$22.5 million
Retirement System	\$49 million
Final Judgments Against the State	\$20 million
Various Programs Previously Funded from "Surplus" TANF Funds In prior years, TANF has funded a plethora of programs, including Drug Courts, CASA, Teen Pregnancy, After-School Tutorials, Truancy Programs, Job Skills/Training, Substance Abuse, and Domestic Abuse.	\$97 million
Medicaid Program Preliminary review indicates unfunded needs in the Medicaid program total roughly \$160 million. This total represents roughly \$48 million in State General Fund.	\$48 million
TOPS Additional funding is needed due to tuition increases.	\$3 Š \$6 million

Supplemental Section of the Executive Budget Contingent Upon Action in the 2004 First Extraordinary Session of the Legislature

There are two primary sources of revenue in the FY05 Executive Budget contingent on legislative action in the 2004 First Extraordinary Session of the Legislature: 1) the renewal of sales tax on business and utilities (House Bill No. 1), and 2) an increase in the deposits allowed into the State General Fund from mineral revenues (Senate Bill No. 8). The combined total of these two actions will amount to roughly \$211 million. At this writing, both pieces of legislation have passed the Legislature and await signature by the Governor.

A smaller supplemental mechanism requiring no legislative action in the special session relies on the defeasance of the FY02 year-end surplus and totals \$17.2 million.

Items funded by the larger supplemental funding mechanisms (\$211 million in state funds) are scattered throughout the Executive Budget in an amount that equates to approximately 7 percent for each department where applicable. In most cases, this represents a direct correlation between discretionary general fund dollars available and the proportion of supplemental funding contained in a budget unit.

For instance, Higher Education and the Department of Health and Hospitals (DHH) have the highest dollar level, of supplemental funding. Higher Education has approximately \$76 million in supplemental recommendations, and DHH has roughly \$77 million. In the case of DHH, the supplemental state general fund dollars are further matched with federal dollars and generate roughly \$224 million in health expenditures.

Departmental Summaries

The following section provides highlights of the posture of each major budget unit as proposed in the Executive Budget and briefly explains any major changes and/or remaining issues. The overviews include the supplemental recommendations.

Health Care Services

Health and Hospitals

The recommended budget for the Department of Health and Hospitals is \$6.3 billion in FY05. The Governor's budget recommendations for FY05 increase spending in DHH by \$277 million over the current year. **This is still \$223 million short of the projected needs for FY05. Of this \$223 million, \$87 million is State General Fund.**

The increase results from additional expenditures on services and the maximization of financing mechanisms that minimize the direct appropriation of State General Fund.

The DHH budget contains two new agencies that will begin operating in FY05, the Florida Parishes Human Services Authority (serving the parishes of Livingston, St. Helena, St. Tammany, Tangipahoa, and Washington), and the Metropolitan Human Services District (serving the parishes of Orleans, St. Bernard, and Plaquemines).

The recommended spending level for the Medicaid program (both administration and services) totals \$5.2 billion, an increase of \$241 million over current year spending (including financing mechanisms). **The departmental projected needs amount estimated above includes the approximately \$160 million shortfall in the Medicaid program projected for FY05 based on the funding level recommended in the Executive Budget.**

In the major service areas of the department – public health, mental health, developmental disabilities, and addictive disorders, the recommended funding levels for next fiscal year vary when compared to the current year operating budget.

- The FY05 recommended budget for public health services is \$300 million, an increase of \$3 million over the current year.
- The FY05 recommended budget for mental health services is \$255 million, basically maintaining the current year spending level.
- The FY05 recommended budget for services for the developmentally disabled is \$240 million, an increase of \$7 million over the current year.
- The FY05 recommended budget for additive disorders services is \$62 million, a decrease of \$7 million from the current year.

LSU Health Sciences Center - Health Care Services Division

State funding of the charity hospitals will remain constant for FY05. Due to the fluctuations in non-state revenue sources (Medicare, commercial and self-pay patient collections) in the current year, it is too early to accurately estimate total spending for FY05 beyond an optimistic assumption of the maintenance of current services level in FY05.

K – 12 Education

Minimum Foundation Program

The state must replace this year's \$142.6 million in federal State Fiscal Relief funds with State General Fund next year. Further, a \$71.2 million increase based on student population changes is constitutionally mandated for public schools in FY05 according to the Minimum Foundation Program's formula, and half of that amount is slated for teacher pay raises. **The FY05 Executive Budget does not include, however, \$22.5 million in current year MFP costs for local school systems.**

LA4 Early Childhood Education

The Executive Budget for FY05 continues to provide \$49 million to maintain public preschool services for poor children. Instead of funding the entire program next year with TANF funds, \$14 million in 8(g) monies will be used along with \$35 million in TANF dollars.

Other Education Services

Private Pre-Kindergarten Funding

Continues funding of \$8.5 million in Temporary Assistance for Needy Families (TANF) funding of Private Pre-K program. This program serves 1,520 students in 44 schools located in nine parishes.

Tuition Opportunity Program for Students (TOPS)

The Tuition Opportunity Program for Students (TOPS) is pegged at \$105.4 million in the FY05 Executive Budget, **but an additional \$3 million to \$6 million will be needed to cover university tuition increases for the program's projected 40,265 students.**

Other Education Initiatives

The Executive Budget also proposes to provide additional funding for the following purposes: (1) \$1.7 million for teachers, school psychologists and school counselors who gain national professional certification; (2) \$1.3 million in accountability funding for High Stakes Remediation and Testing; and (3) \$1.4 million for additional grade levels at eight existing Type 2 charter schools.

Retirement Systems

State government's employer contributions to the major statewide retirement systems will increase in FY05, mainly to offset the lower investment returns of recent years.

School districts across the state maintain that the retirement rate increases will force either local tax increases or cuts in education services. Teacher retirement contributions for local school districts are expected to rise by as much as \$95 million in FY05. Similarly, higher retirement costs for other local school employees are expected to rise by \$27 million. **Further, the Minimum Foundation Program (MFP) addresses neither teacher and/or school employee increases. When \$60 million in increased health insurance costs are factored in, local school districts are facing a \$182 million problem next school year.**

As proposed, the Executive Budget provides only for a \$23 million increase in retirement costs. However, as established by the Public Employees' Retirement Actuarial Committee, the actual costs will be closer to \$72 million. This represents a \$49 million unfunded requirement in the Executive Budget.

Higher Education

The budget recommendation for Higher Education provides for an increase of \$89 million in total funding over the current fiscal year. The largest increase in means of financing is

interagency transfer funds. The increases over the current year in the budget recommendations for the LSU Health Sciences Center – Shreveport and the E.A. Conway Medical Center relate directly to the maximization of Disproportionate Share (DSH) financing mechanisms that minimize the required direct appropriation of State General Fund in the Medicaid budget.

Higher Education funding from State General Fund in the amount of \$40.2 million for statewide adjustments such as classified employee merit increases, group insurance, risk management, and retirement adjustments is funded from reductions in other expenditures.

In the LCTCS System, the Executive Budget adds \$5 million to pay for continued growth in the state's community and technical colleges. These funds are proposed to be used in the Community and Technical College Development Pool to implement the Higher Education Master Plan and address the expected enrollment increases in Louisiana's community and technical colleges. This additional funding represents the only new and expanded adjustment for Higher Education.

The recommended funding does not include additional funding for the Higher Education Performance and Quality Improvement Distribution Pool.

In recent years, about \$15 million annually has been appropriated to Higher Education in the capital outlay budget for library and scientific acquisitions. For FY05, however, only \$5 million is proposed to be included in Higher Education's operating budget for these purposes.

Public Safety and Corrections Services

Corrections

The most significant change in the Department of Corrections has been the establishment of a "firewall" between the adult and juvenile correctional systems. This division was established via executive order by Governor Blanco at the behest of the Juvenile Justice Implementation Commission, which has been studying potential changes to the juvenile justice system per Act 1225 of the 2003 Regular Session of the Legislature. Thus, for budgetary purposes, juvenile corrections is now considered an autonomous entity.

- Overall, Adult Corrections is proposed to be budgeted at \$425.4 million for FY05, which is \$21.3 million more than it received for FY04. Approximately \$15 million of this increase is due to the proposed creation and start-up of the Steve Hoyle Rehabilitation Center at the soon-to-be-closing Swanson Correctional Center for Youth-Madison Parish Unit (the former Tallulah). This program for young adults will house about 250 inmates.
- Other major changes include a decrease of \$3.2 million for non-recurring TANF funding, and a decrease of \$1.7 million in Interagency Transfers due to the realignment of staff and funding due to the separation of youth corrections from adult corrections. Group Benefits funding for retirees in the Office of Youth Development in the amount of \$2.9 million has also been moved from adult corrections to juvenile corrections.

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- One other change of note is that the former Work Training Facility-North, located in Pineville, has been renamed the J. Levy Dabadie Correctional Center.

Youth Development Services

This is a new budget entity, which has been split apart from Adult Corrections.

In FY04, this entity was the Office of Youth Development and part of the overall Department of Corrections. Youth Development Services is proposed to be funded at \$131.8 million in FY05, which is a \$2.9 million increase over OYD's FY04 funding of \$128.9 million. This increase is largely due to Interagency Transfers, mostly from Adult Corrections, to the extent of about \$3 million. Youth Development Services will comprise all administrative functions of the juvenile correctional system, all juvenile secure institutions, juvenile probation and parole, and community-based care programs for juveniles.

Public Safety

Overall, the departmental budget for Public Safety Services is down \$32.2 million from FY04. The budget level for this department is proposed to be \$309.4 million for FY05. Most of this decrease is due to \$26.4 million less in Federal Funds, including \$18.1 million less in the Highway Safety Commission due to the state's failure to pass an open container law, and \$8.2 million less in the Office of State Police due to non-recurring carryforwards.

The department's FY05 proposed budget contains no appropriation from the State General Fund. This is not an unusual scenario for Public Safety, as most of the department's budget is dependent on Statutory Dedications, Fees and Self-generated Revenues, and Federal Funds. The proposed funding structure, however, does present cash-flow challenges for the department. The department had about \$5.1 million in State General Fund in FY04, but all of this money has been non-recurred.

Sheriffs' Housing of State Inmates

Sheriffs' Housing is proposed to remain at the same budget level for FY05 as for FY04 — \$147.8 million. Parish sheriffs and local law enforcement are paid \$22.39 per day by the state to house state inmates in local jails or other detention centers.

Supplemental Pay to Law Enforcement Personnel

Supplemental pay increased overall by \$0.6 million for FY05 as compared to FY04. The proposed total for FY05 is \$71.4 million. Eligible law enforcement personnel who meet qualification standards are compensated at the rate of \$300 per month for police, firefighters, and deputy sheriffs, and \$75 per month for constables and justices of the peace.

Social Services

The Executive Budget includes a reduction of approximately \$179.8 million in funding for the Department of Social Services from its FY04 level of \$1.1 billion to the FY05 proposed level of \$895.6 million. Most of this decrease is due to \$156.7 million less in overall Federal Funds, including about \$97 million in non-recurring Temporary Assistance for Needy Families (TANF) funds and non-recurring carry-forwards of \$52.5 million, among other changes.

It should be noted that FY05 is the final year for the TANF initiatives program. This program was begun in FY02 as a way for the state to maximize its TANF expenditures so as not to risk losing much of the block grant funding back to the federal government. It is anticipated that the state has approximately \$20 million in FY05 TANF funds to expend, down from \$117.5 million for FY04.

(See chart and explanation on following page).

FY05 TANF Funding Summary

FY04 TANF Initiatives		FY05 TANF Initiatives	
<u>Literacy</u>			
Public Pre-K	\$ 39,000,000	\$ 35,000,000	*
Private Pre-K	\$ 8,500,000	\$ 8,500,000	e*
Drop-out Prevention	\$ 4,500,000	\$ -	e
After School	\$ 9,500,000	\$ -	e
Adult Literacy	\$ 1,500,000	\$ -	*
Truancy	\$ 2,430,193	\$ -	
TOTAL LITERACY	\$ 65,430,193	\$ 43,500,000	***
<u>Employment</u>			
Job Skills	\$ 11,750,000	\$ -	
Microenterprise Development	\$ 641,666	\$ -	
Incarcerated Job Skills	\$ 2,000,000	\$ -	
Post-release programs	\$ 4,500,000	\$ -	
TOTAL EMPLOYMENT	\$ 18,891,666	\$ -	
<u>Family Stability</u>			
Teen Pregnancy	\$ 6,500,000	\$ -	
Domestic Abuse	\$ 3,166,666	\$ -	
Community Response	\$ 3,000,000	\$ -	
Fatherhood Initiatives	\$ 750,000	\$ -	
Family Strengthening	\$ 500,000	\$ -	
CASA	\$ 4,830,000	\$ -	
Drug Courts	\$ 5,000,000	\$ -	
Substance Abuse	\$ 4,166,666	\$ -	
At-risk Children/Mental Health	\$ 1,750,000	\$ -	
Abortion Alternatives	\$ 1,500,000	\$ -	
TOTAL FAMILY STABILITY	\$ 31,163,332	\$ -	
<u>Other</u>			
DOA Oversight	\$ 1,600,000	\$ -	
Caseworker Training	\$ 750,000	\$ -	
TOTAL OTHER	\$ 2,350,000	\$ -	
GRAND TOTAL	\$ 117,835,191	\$ 43,500,000	

TANF Explanatory Notes

For FY05, only \$20 million of the so-called “TANF surplus” is available for spending on initiatives. This amount was \$117.8 million in FY04; thus, about \$97 million is no longer available. This is what people are talking about when they say, “TANF is going away.” Louisiana is still receiving the TANF block grant and will continue to do so into the foreseeable future unless Congress decides otherwise, but the unexpended surplus of prior years has been spent down, so money that had been available for initiatives is no longer there.

* The \$35 million budgeted for the Public Pre-K program includes the \$20 million “surplus” mentioned above, plus additional TANF funding of \$15 million acquired under a proposed funding scenario proposed by the Division of Administration. Under current Department of Social Services’ policy, 20 percent (typically about \$37 million) is taken off the top of the TANF block grant and transferred to the Child Care program. The Division of Administration is proposing to hold back \$15 million of this funding that would have been otherwise transferred to Child Care and leave it available for TANF spending.

** Another part of the Division’s proposed funding plan is to continue to provide \$8.5 million in funding for the Private Pre-K program. To do this, the Division is proposing to eliminate \$3.5 million in TANF Maintenance of Effort (MOE) administrative funds from the Office of Family Support and to eliminate \$1.5 million of Tobacco funding from the Starting Points program in the Department of Education. For FY05, the \$3.5 million would be moved to the Child Care Assistance Program within the Office of Family Support to potentially draw down an additional \$8.5 million in Child Care funds. The \$1.5 million once used for Starting Points would instead be budgeted in the Department of Health and Hospitals for the Medicaid program where it would be utilized to generate an additional \$3.7 million of federal funds. Starting Points would cease to exist.

To satisfy the hole created by moving this aggregate of \$5.0 million from TANF MOE in the Office of Family Support, the Division is proposing to have the Board of Elementary and Secondary Education “certify” \$5.0 million in 8(g) funding for early childhood education to count towards the MOE requirement for TANF in DSS. Under this scenario, DSS could theoretically draw down an additional \$12 million in TANF funding that would have otherwise been transferred to the Child Care Assistance Program. Of this \$12 million, \$8.5 million would be used to fund the Private Pre-K program and \$3.5 million would be used to replace funding removed from the DSS — Office of Family Support for TANF MOE funds.

*** The availability of \$43.5 million for FY05 is dependent upon the funding scenarios described above. This scenario is subject to change.

Transportation and Development

The recommended budget for the Department of Transportation and Development represents a \$1.6 million increase from the existing operating budget to a total budget of \$416 million in FY05. An overall increase in statutory dedications was offset, in part, by a decrease in federal funds.

The budget recommendation for the Office of Engineering and Operations includes an increase of \$20 million in Transportation Trust Funds-Federal transferred from the capital outlay budget for use in the District Operations program. These funds will be used for various operating expenditures such as contract maintenance, supplies, and acquisitions, at the expense of capital construction in the highway program.

The amount of \$5 million in Transportation Trust Funds-Regular is transferred from the operating budget to the capital outlay budget to provide state funding for federal match in the highway program.

The State General Fund appropriation of \$1.5 million to the Department of Transportation and Development has been eliminated in the Executive Budget.

Economic Development

For FY05, a total of \$63.7 million has been recommended for DED. This is a reduction of \$36.1 million from the current fiscal year. The reductions largely relate to several major adjustments, including:

- Reduction of various non-recurring line-item appropriations (\$2.4 million);
- Liquidation of LEDC carry-forward funds (\$25 million);
- Non-recurring expenditure of the remaining fund balance associated with current year LEDC projects (\$12.5 million); and,
- Elimination of the Temporary Assistance to Needy Families (TANF) Microenterprise Initiative (\$663,666).

State General Fund monies were added to the FY05 budget as follows:

- \$10 million for the governor's Economic Development Rapid Response Program (\$4.6 million of this money is in the supplementary recommendation contingent upon sales tax exemption renewal);
- \$1.9 million for annualization of wet labs in Shreveport, New Orleans, and Baton Rouge; and,

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- \$1.1 million for annualized cost of the Good Manufacturing Practices Facility (GMP) in New Orleans.

As in past years, money was included in the recommendation for the Sugar Bowl (\$1.1 million); Independence Bowl Foundation (\$372,188); and the New Orleans Bowl, Inc. (\$347,375). However, all of these items are in the supplementary recommendation contingent upon sales tax exemption renewal.

Funding in FY05 is also continued for the following initiatives:

- \$4.7 million for the 8th year of a 15 year, \$50 million commitment for UNO/Avondale design and construction of 12 new PD-17 class naval vessels;
- \$2.4 million for the Louisiana Technology Park;
- \$3.5 million to the UNO Center of Excellence for the 2nd of a 20-year commitment for debt service on infrastructure improvements at Northrup Grumman Ship Systems (NGSS) - Avondale Operations; and,
- \$496,250 for the National Center for Security Research and Training (NCSRT) at Louisiana State University for grants to serve as local match to leverage federal dollars for homeland security projects.

Urban and Rural Development Grant Programs

Funding for grants to rural communities through the Office of Rural Development is recommended at \$7.6 million. Rural monies were reduced \$1.7 million to reach the recommended level. (Half or \$3.8 million of the Rural State General Fund, which appears in the Other Requirements section of the General Appropriation Bill, is contingent on sales tax exemption renewals.)

Grants to urban communities through the Office of Urban Affairs are recommended at \$8.5 million. (Half or \$4.2 million of the Urban State General Fund is contingent on sales tax exemption renewals.)

Louisiana Stadium and Exposition District

The Louisiana Stadium and Exposition District may face a shortfall in revenues for the current year and next fiscal year of \$8.5 million and \$9.2 million, respectively. The anticipated shortfall is due mainly to stagnant hotel occupancy tax revenues, rising insurance costs, and the lack of naming rights proceeds from district facilities. These projected deficits will directly impact the ability of the district to meet state contractual obligations with both the New Orleans Saints and New Orleans Hornets franchises.

Judicial Expenses

The FY05 Executive Budget recommendation for the Judicial Branch totals \$100.9 million, which is \$9.8 million less than FY04. The reductions are due primarily to the loss of TANF monies supporting Drug Court and CASA activities.

Drug Court services are reduced from the FY04 level by \$5 million to reflect the loss of Temporary Assistance for Needy Families “surplus” funds. However, \$6.2 million in SGF remains to fund this activity.

Court Appointed Special Advocates (CASA) Program funding of \$4.8 million from TANF surplus has been totally eliminated since such funding is no longer available from DSS.

Although the Executive Budget recommendation totals \$100.9 million, the Judicial Budgetary Control Council requested \$117.5 million. Major increases requested include: \$8.1 million for Drug Courts; \$2.0 million for a pay raise for judges, subject to statutory authority; \$2.0 million restoration of FY04 reduction; \$2.0 million for merit increases for staff; and funding for staff, inflation, and other mandated costs. Hence, the Judicial Branch did not receive the additional \$17.5 million it requested.